November 21, 1985

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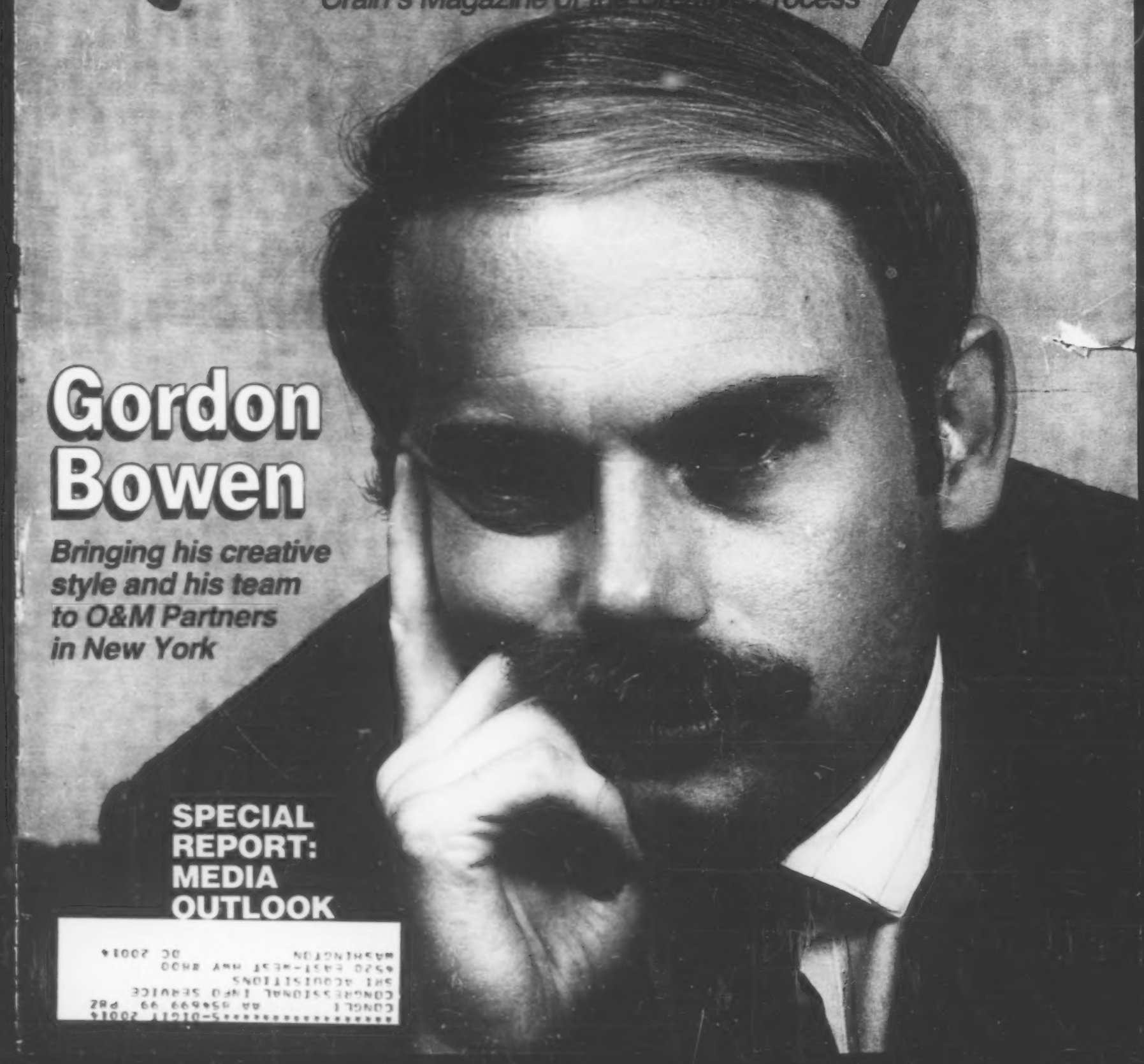
Advertising Age Thursday

Crain's Magazine of the Creative Process



Gordon Bowen

Bringing his creative style and his team to O&M Partners in New York

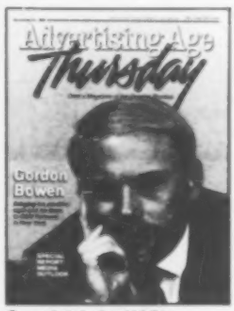
SPECIAL REPORT: MEDIA OUTLOOK

CONGRESSIONAL INFO SERVICE
SUITE 700
4520 EAST-WEST HWY BOOD
WASHINGTON DC 20014

Thursday

It's a wonderful life

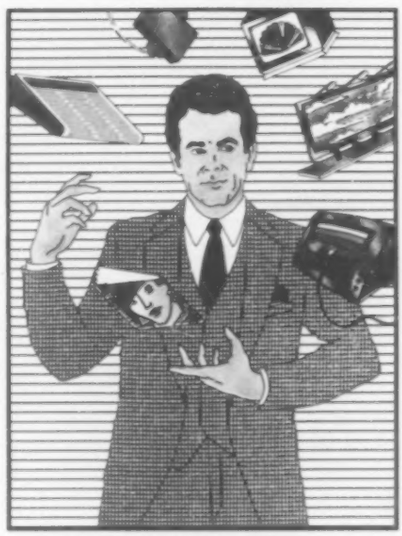
Gordon Bowen is a firm follower of the "everything is wonderful" faith. The advertising industry is wonderful. New York City, where he now lives, is wonderful. Salt Lake City, where he used to live, is wonderful. His new job, as executive creative director of Ogilvy & Mather Partners, is wonderful. His old agency, Bonneville Media Communications, is wonderful. The group of Bonneville writers he brought with him to New York is wonderful. And if asked, he would no doubt eagerly point out that Mormonism, his adopted religion, is also wonderful. Not that you could ever accuse Gordon Bowen of insincerity. Far from it. He clearly believes everything he says. This zeal is precisely what O&M Partners is looking for. *See Page 4.*



Cover photo by Arnold Adler

Image makers

American Bank Note Holographics' holograms for *National Geographic's* March, 1984, and November, 1985, covers may have started this Elmsford, N.Y., company on a roll. The possibilities of using holograms, not only in print but also in packaging and advertising, are capturing the attention of marketers. *See Currents, Page 8.*



Special Report—Media Outlook

A forecast for what's in store for media in 1986, including expectations of a softening of price increases and changes in buying patterns, begins on *Page 13.*

Presstime

Botway/Libov dismisses 40

NEW YORK—Botway/Libov Associates has dismissed or given notice to more than 40 staffers in the wake of losing the Toys "R" Us spot tv-buying duties to the newly formed Bohbot & Cohn (AA, Nov. 18). "Some have left, some will leave at year's end and some in 1986," says Botway/Libov president Ave Butensky. Toys "R" Us, Rochelle Park, N.J., was the agency's first account when Ed Libov Associates began about 20 years ago.

Shearson calls for pitch

NEW YORK—Shearson Lehman Brothers has offered two unidentified Interpublic agencies the chance to pitch for its $20 million account, now at McCann-Erickson, another Interpublic shop. A decision on whether to throw open the review to other agencies was expected by Nov. 22.

Mac ad features 'Fridge'

OAK BROOK, ILL.—McDonald's Corp. this week filmed a tv spot that includes Chicago Bears lineman/running back/budding cult hero William (The Refrigerator) Perry. The commercial is expected to break on the networks during the first week of December. Leo Burnett USA, Chicago, is McDonald's agency. Also, Mr. Perry will team with Bears quarterback Jim McMahon in a tv commercial for Coke and Coca-Cola Classic that will air in December on a market-by-market basis. SSC&B, New York, is creating the spot for Atlanta-based Coca-Cola Co. Separately, Snapple Beverage Co., Ridgewood, N.Y., will use ex-Pittsburgh Steeler Franco Harris in a tv spot for its new wild cranberry and chocolate all-natural sodas. The company says the soft drinks will be national by March, from their current market east of the Mississippi. Ads are handled in-house.

No Saturn shop till '87

DETROIT—General Motors Corp.'s Saturn unit won't pick an agency for another two years, says Saturn president William Hoglund. He added that the new car will not reach the market before calendar 1989. GM executives' optimistic forecasts earlier had placed the Saturn's debut as early as fall, 1987, with an agency selection to be made as early as this year (AA, July 8). The Saturn account could top $100 million by the early 1990s.

BMW backs used cars

MONTVALE, N.J.—BMW of North America is about to become the only U.S. auto marketer to offer a factory-backed used-car warranty. The national program is designed to bolster used-BMW prices and strengthen dealers. A heavy introductory campaign breaks in February, billing BMW as "the only auto maker that stands behind its cars. Twice." Ammirati & Puris, New York, handles the print and tv effort.

Edison lights at Doner

WASHINGTON—Edison Electric Institute, a consortium of electric utilities, has handed its $5.5 million account to W.B. Doner & Co., Baltimore. D'Arcy Masius Benton & Bowles, New York, previously had the account. Ketchum Advertising *(Continued on Page 55)*

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ABP MPA ABC

Q&Adgraphs

The question: What effect will the stand-alone 15-second tv spot have on the effectiveness of creativity in commercials and the efficiency of tv commercial buys?

N. HARRISON

Neil Harrison, senior vp-media director, Weightman Advertising, Philadelphia: Several of our advertisers will now start to have either a 70/30 split or a 60/40 split between 30s and 15s. However, if there is greater use of these (shorter) units, recall may diminish. And if demand for (the 15s) increases, so will the price. . .If cost advantages of stand-alone 15s continue to be favorable—that is, half the cost of a 30—then we will convert 30% to 35%. . .into 15s. That will generate higher reach and frequency, or we can extend a four-week flight into five weeks.

D. KIERNAN

Dick Kiernan, exec vp-creative services, Grey Advertising, New York: For many package-goods products, it's going to be the most effective and efficient way to sell on tv, but for many products and services that depend a great deal on emotional content it will be a fight to see if they can do it in a 15-second commercial. . .I don't think it will become the standard unit in the way the 30-second commercial replaced the 60 because, taking an example from another agency, I don't think you can do a commercial like "I want to buy the world a Coke" in 15 seconds.

L. SUGARMAN

Len Sugarman, exec vp-executive creative director, Foote, Cone & Belding, New York: It will be a challenge to the effectiveness in that it will add to clutter. Also, if American advertising continues to test 15-second commercials in the way it tests 30-second commercials—that is, on whether the rational benefit of why to buy the product is getting across—then the emotional content will suffer. In a 30-second commercial, you can get that rational message across as well as the subtler message. With a 15-second commercial, emotion will be the first thing to go.

P. BENJOU

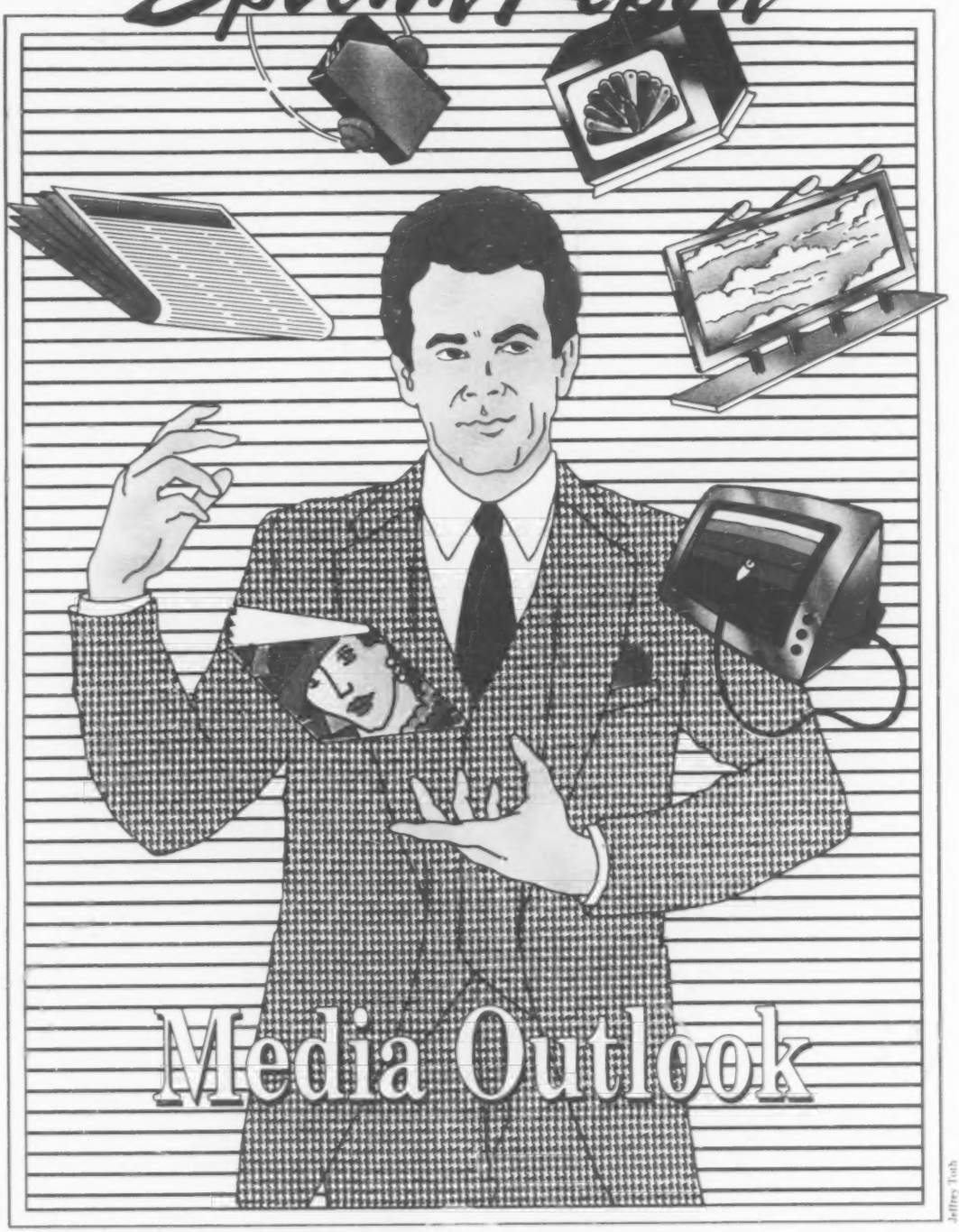
Paul Benjou, senior vp-director of marketing planning, media and administration, Doyle Graf Mabley, New York: One of the changes in the planning process will be frequency, which will become more important. Shorter commercials will have less impact. Positioning within the commercial pod will also become more important. In pricing, a buy will. . .look more efficient on paper, but what will disappear is not yet known. More research has to be done. For example, 10s are good adjuncts to 30s, but not as stand-alones.

E. WEBER

Eric Weber, exec vp-creative director, Dancer Fitzgerald Sample, New York: I don't think that it will diminish or add to the effectiveness of tv advertising. Advertising is already becoming more billboard or poster-like, and I like that. I think tv advertising will continue to be the most powerful advertising of all time and advertisers will find brilliant ways to use television advertising in 15 seconds. The people who do it well will continue to have effective advertising, and those who don't do it well will not have effective advertising. ■

ADVERTISING AGE *Thursday* invites those who serve agency creative and/or media departments to share views on significant advertising-related issues. While we're out there making calls for this feature, why wait for the phone to ring? Send pithy comments and a recent photo to: Q&Adgraphs, ADVERTISING AGE *Thursday*, 220 E. 42nd St., New York 10017.

Special Report



Juggling continues despite welcomed disinflation

By Robert J. Coen

Breaks in some media pricing practices are long overdue. In 1982, double-digit inflation in the U.S. economy began to moderate, but media inflation continued at close to double-digit levels. The relative differential between media inflation and total inflation has widened sharply since then.

Media disinflation is inevitable; and in 1986, buyers in time and space can expect a softening in rates across the board. Network tv prices, up 8% in 1985, will increase only 6%; spot tv, up 6% in 1985, will increase 5.5% in unit prices; spot and network radio, up 6% and 8% in 1985, will rise 5.5% and 6%, respectively; newspaper rates, up 8% in 1985, will climb 7%; magazine rates grew 7% in 1985, but will rise only 5.5%; outdoor will remain the same at a 6% increase, and direct mail will rise 4% in prices compared with 7% in 1985.

There have been a number of nonrecurring developments the past several years that have staved off the de-escalation in prices up to the middle of this year.

The traditional lag between media price changes and other price changes kept rates up through 1982 when other prices began to break. In 1983, the economy expanded sharply and new products and extra ad demand held off media disinflation for another year. The long-awaited appearance did not arrive in 1984 because of the Olympics and the general election. After nearly double-digit increases in media unit prices in 1982, 1983 and 1984, the rate dropped to 7% in 1985 and in 1986 price increases for most media are expected to be about 5% to 6%.

In 1986 price increases for most media are expected to be about 5% to 6%.

A better understanding of the likely price trends may be gained by a review of past trends.

There is a direct correlation between media inflation and general inflation in our economy. However, as the economy's structure changes with shifts in technology and society, there are underlying modifications in the basic role of advertising.

During the past quarter of a century, there were four intervals in which shifts in the basic demand relationship occurred. These were:

1960 to 1967

The 1960s opened with great expectations for the advertising industry. Tv had fueled exceptional growth after the end of World War II, and the momentum carried over into what was expected to be the soaring '60s.

Tv audiences grew much faster than the population, and the medium began the transition from black and white to color. Fueled by growing demand and the optimism of the Great Society years, the media aggressively expanded their audiences and circulations, and media unit prices rose more rapidly than the consumer price index.

During this time, the CPI rose from 89 to 100 (base year 1967 equals 100), a gain of 12%, while the price index of all media units rose from 78 to 100, a relative increase of 28%. But when ad-

(Continued on Page 14)

Juggling

(Continued from Page 13)

justed for audience and circulation gains, the increase was 18%, much more in line with the CPI increase. Unit increases for tv and magazines were much higher, but so were the audience and circulation gains. Costs per thousand did not far outstrip the CPI as they have recently.

In the closing years of the period, rising costs had a noticeable effect on buyer demand. By 1967 inflation was picking up steam and approaching the then-considered dangerous levels of 3% to 4%. The rapid runup in media costs, despite the accompanying audience gains, was causing some schedule cutbacks.

During these years the soaring absolute cost of 60-second commercials caused the cutback to 30-second spots as the standard. A plateau in budgets and a shift in advertising tactics resulted as unit cost increases exceeded the limits of affordability.

Then a new media pricing interval appeared on the scene near the end of the decade.

1967 to 1975

The media supply and demand relationship shifted dramatically during the next media interval. The supply of available units was expanded because of the cutback in commercial length and the disappearance of cigaret advertisers from the broadcast media. The imbalance in the relationship was extended for a number of years because of energy shortages, artificial price control restraints, Watergate and a long recession.

From 1967 to 1975, the CPI went from 100 to 161, a 61% gain, while the unit price index of all media rose to 163, a 63% gain influenced by the exceptional increase in mail advertising costs caused by the more than doubling of postal rates.

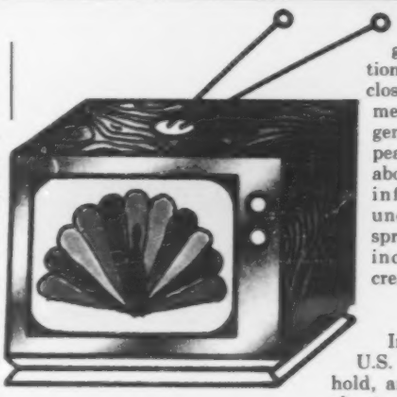
The composite index for national media budgets, excluding mail, rose to only 146, a significantly smaller increase than the CPI, and when adjusted for audience and circulation gains, a mere 27% increase was the experience of most major national advertisers.

This second media interval was characterized by a slowdown in media prices in relation to all other prices. There was a break in the media price runups from 1967 to 1975 when a series of developments—Arab oil embargo, Watergate, wage and price controls, banning of cigarets from tv—restricted the normal growth in advertising demand. This period ended when the economy turned back upward in the second half of 1975.

1975 to 1981

By mid-1975 the economy was

Robert J. Coen, the guru of media forecasting, is senior vp-director of forecasting at McCann-Erickson, New York.



picking up steam and the excess supply of media inventory was diminishing. New products and new marketers appeared and took up some of the slack. The tv networks and stations had unleashed aggressive sales efforts to uncover new customers when they lost their cigaret business at the same time that 30-second spots were expanding the supply of commercial time.

During the previous period, many magazines reduced circulation, and print availabilities were contracted further by the demise of large circulation photo journalism magazines such as *Life* and *Look*. During these years magazines held down their ad rate increases while raising subscription and newsstand prices sharply. By 1975 the added cigaret advertising demand and the reduced mass magazine supply contributed to an upsurge in demand and cost of magazine space.

In 1976, an election year, the U.S. bicentennial, an Olympic year and a year of strong economic recovery, the pentup demand for ad time and space exploded and a sharp upward turn in media pricing began.

From 1975 to 1981 the CPI rose from 161 to 272, an increase of 69%, but media unit prices soared even higher. Network tv and spot tv prices about doubled, and other media rates matched or exceeded the CPI growth with the exception of the mail. By 1981 a closer relationship between media price increases and general price increases appeared to be imminent, just about the time the U.S. disinflationary trend got under way. Instead, the spread between media price increases and other increases got wider.

1981 to 1985

In 1981 the war against U.S. inflation began to take hold, and disinflation started about midyear. In 1982, the increase in consumer prices had descended from double-digit rates to a more acceptable 6.2%. The rate has been 4% in 1983, 1984 and 1985. From 1981 to 1985 total U.S. consumer prices rose a relatively modest 18% and the price of food, apparel and new cars rose only about 10%.

On the other hand, media disinflation is just now beginning to get started, having been held off by exceptionally strong demand, the Olympics and a traditional time lag.

The index of media unit costs for national advertisers rose from 271 in 1981—compared with 272 for the CPI—to a 1985 index of 383, considerably higher than the CPI of 322. Media unit costs, on average, have risen 41% over these years when most marketers have not been able to impose increases on the price of their own goods and services of much more than 10%.

The resistance to soaring media costs has become even stronger because none of the media has accompanied these price hikes with any significant audience or circulation increases. In fact, most tv network audiences have declined.

The advertising and marketing industry has come to a point when media price breaks appear inevitable. A new trend in media pricing has begun.

Media disinflation began in earnest this year and the outlook is for the size of media price changes to come more in line with those of most other items. The latest pricing trends are as follows:

Network tv

For more than a decade, network tv price increases have been far above general price inflation, but since midyear, network buyer demand has been softening. Many established brands no longer can afford the escalated price of prime-time, 30-second commercials, and budgets are being redirected to less costly dayparts or barter syndication. New product introductions have slowed and new network buyers have failed to appear as the economic expansion has lost steam.

Average network unit prices rose 10.7% in 1982, 8% in 1983, and in 1984 the average, excluding the Olympics, went up 10.5%. But in 1985, the networks' seller's market is eroding. Reports on the upfront market indicate reduced commitments and a significant moderation in price increases.

Many scatter prices in the closing months of the summer and into the fourth quarter dropped. Reports of exceptional opportunistic buys are proliferating. In 1985, the three-network revenue total is not expected to be much higher, if at all higher, than the 1984 level.

Although a major explanation is the absence of the Olympics, this is the slowest growth in a post-Olympic year for decades. Prices for many regular network programs are now flat and ratings often are down. The size of unit price increases is less than in the past, but lower ratings push up some cpms.

In 1986 the moderating trend will continue and the shift to 15-second commercials will bring more disruption. Eventually, the tv networks will complete the transition from 30s to 15s and pricing will become firmer. However, in 1986 much lower rate increases and, in a number of dayparts, some actual rollback on prices are expected. But, on average, network tv unit prices are expected to go up 6% in 1986.

Instead of soldout networks contributing to extra demand for other media, there may be a reverse trend resulting from more moderately priced network units now that 15s are available.

Spot tv

In the past decade, spot tv often has received dollars because of soldout network situations. New product introductions, rebate advertising and growth in retailer usage all have contributed to the high price increases.

The economy has slowed and so has the number of new product introductions and total advertising demand. The expansion in availabilities because of the arrival of the 15-second commercial and the growth in independent station inventory will speed up spot disinflation.

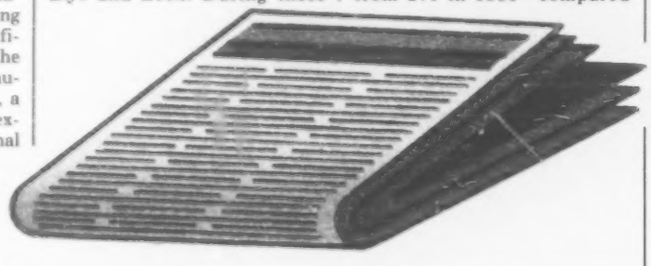
In many markets and dayparts, spot prices easily could fall below year-earlier levels as demand wavers and networks become real competitors instead of a source of pass-along business.

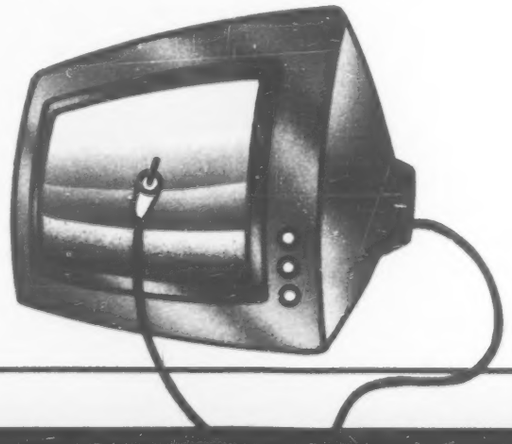
In 1986 the average increase in spot tv unit prices is expected to be quite modest compared with 1985. Unit prices will be up about 5.5%, but there will be more stations sharing the viewing. The resulting slight rating losses could offset the population gain, making cpms about 5.5% higher next year as well.

Average annual media price changes

	1982	1983	1984	1985	1986
Major media unit costs					
Network tv	+11.0%	+8.0%	+13.0%	+7.0%	+6.0%
Spot tv	+11.0	+8.0	+10.0	+6.0	+5.5
Magazines	+ 9.0	+8.0	+ 8.0	+8.0	+5.5
Newspapers	+10.5	+9.0	+ 9.0	+8.0	+7.0
Major media CPMs					
Network tv	+12.0%	+9.0%	+13.0%	+8.0%	+7.0%
Spot tv	+11.0	+8.0	+10.0	+6.0	+5.5
Magazines	+ 9.0	+8.0	+ 8.0	+8.0	+6.0
Newspapers	+ 9.5	+9.0	+ 9.0	+7.0	+7.0
All consumer prices	+ 6.1%	+3.2%	+ 4.3%	+3.5%	+4.0%
Media unit cost composite*	+10.7	+8.0	+10.5	+7.0	+6.0
Media CPM composite*	+10.4	+8.3	+10.2	+7.2	+6.8

Source: McCann-Erickson
*Net tv; spot tv; magazines; newspapers; net radio; spot radio; outdoor.





Radio

There are many more radio stations competing for ad dollars in a market than tv stations. Some radio stations are able to increase rates without losing advertising orders if the strength of their station improves noticeably. But when the economy is not robust and prices in competing media are soft, most radio stations are forced to keep rate hikes to a minimum.

In 1986 spot radio rates are expected to rise slower than most media. Spot radio rates should rise 5.5% with the radio networks getting a slightly higher 6% increase.

Newspapers

Newspapers receive most of their ad revenue from local advertisers. Retailers are their most important customers, but newspapers' most profitable business comes from classified real estate and employment ads. In 1985 the classified linage held up, but retail linage was soft. Many key local advertisers shifted to heavier insert programs and use of the mail.

Until this year, newspapers in many markets enjoyed near monopoly conditions and ad rates rose sharply in most years. Now the newspapers are experiencing conditions quite similar to those of the tv networks. The soft ecoromy and the recent runup in ad rates is threatening to drive customers to other alternatives such as the mail or broadcast media.

Newspapers will continue to raise rates as much as seems prudent, but for the near future they are likely to hold back on the size of their annual increases, with papers in many markets turning to the readers for a larger share of their revenue requirements. On average, unit rates are expected to rise about 7% in 1986 with little change in circulation, so cpms also will be up about 7%.

Magazines

Competition among magazines for advertising orders always has been very strong. However, until this year, the demand for magazine space has been good and price competition has not been as intense as it was in the 1967-1975 period.

In 1985 magazine page volume began to decline, and now price competition is becoming fierce again. Some publications have begun to make deals or provide extras to get the order. Others have revised rate cards downward while dropping circulation guarantees. Average page rates are expected to go up 5.5% with a slight over-all drop in circulation for a cpm increase of 6% in 1986.

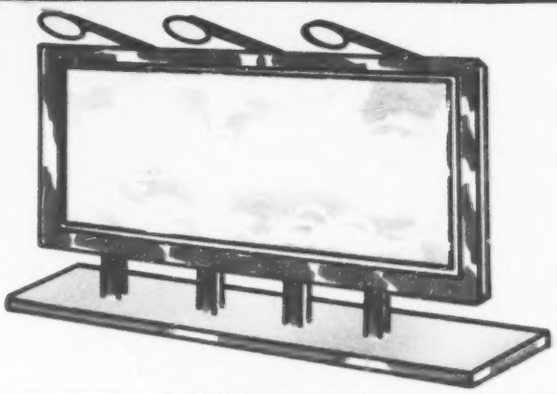
Outdoor

Cigaret and liquor advertisers have depended heavily on the outdoor medium to display their products, which are not generally acceptable in the broadcast media. This strong source of demand enabled the outdoor plant operators to command high annual price increases in recent years for their somewhat restricted supply of outdoor boards.

Cigaret and liquor sales to consumers have reached a plateau and new brand introductions have been drying up. The softening demand for outdoor space is expected to keep price increases to about 6% in 1986.

Direct mail

In the past few years, the direct mail medium has been able to hold down price increases. This has been partially because of economies in managing production expenses such as list development, paper grades, piece size and the costs of mechanically preparing the pieces for mailing. Costs also have been held down because of special postal presort discounts, which have resulted in only a slight upswing in postage costs in recent years.



In February, the U.S. Postal Service raised the third-class postal rate about 14%, but economies in production design and execution kept cost increases to a minimum, so total 1985 cost increases averaged about 7%. In 1986 there will be no further postage increases, but new economies of scale in the production portion of costs will be difficult to come by. However, the overall cost increase for mail advertising should be a relatively modest 4%.

Moderation or media disinflation began early this year and it will be firmly in place in 1986. Media prices are expected to continue to come more into agreement with other price changes after years at much higher levels.

The average annual price changes of most major media were twice the size of general inflation in 1982, 1983 and 1984. For example, the cost of a 30-second network tv commercial rose 11% in 1982 when the CPI rise had moderated to 6.1%. In 1983 network tv prices rose again by 8% despite a general inflation rate of only 3.2%. Then in Olympic year 1984, even the regular network commercials leaped upward 13%. All media price rises were far in excess of the 4.3% rise in the CPI in 1984,

but in 1985 moderation finally set in.

This year, when the CPI is running at less than 4%, prices for major media, both on a unit and cpm basis, still are running at least double the CPI rate.

In 1986, when consumer prices are expected to rise about 4%, most major media price increases will cluster between 5% and 6%. For the rest of this decade, media inflation and total inflation should move closer together. Between 1985 and 1990 consumer prices probably will rise by less than 25%. By 1990 most media schedules will go up in price by a little more than 25%, but probably not much more than 30%.

Media price increases the next few years are likely to be a shade higher than most price increases, but the differential between cpms and the CPI will be far smaller than it has been in the past.

McCann-Erickson media price indexes

(base year 1976)

Year	Newspapers	Magazines	Net tv	Spot tv	Net radio	Spot radio	Outdoor	Direct mail	Composite *	Composite **	CPI
Unit costs											
1960	83	73	74	69	100	82	64	78	78	75	89
1961	86	80	76	72	101	84	68	78	81	78	90
1962	88	86	78	74	99	86	72	78	83	81	91
1963	89	87	81	80	101	86	77	91	87	84	92
1964	90	90	85	86	101	87	81	96	90	88	93
1965	91	94	90	89	100	91	88	100	93	91	95
1966	99	98	96	94	101	96	93	100	98	97	97
1967	100	100	100	100	100	100	100	100	100	100	100
1968	104	103	105	105	98	102	107	125	108	104	104
1969	109	106	114	110	100	104	116	132	114	110	110
1970	115	109	113	105	101	107	125	132	116	110	116
1971	120	114	108	104	95	103	135	143	119	111	121
1972	123	110	125	127	105	109	145	167	130	119	125
1973	128	110	140	127	105	114	155	174	136	126	133
1974	140	115	151	135	106	119	166	212	151	135	148
1975	160	122	160	145	112	125	178	219	163	145	161
1976	176	127	189	181	128	135	192	272	189	166	171
1977	192	137	227	188	154	147	209	268	202	185	182
1978	207	152	252	209	172	160	226	282	218	204	195
1979	226	166	280	230	191	173	250	244	226	224	217
1980	249	183	302	255	214	192	275	235	242	246	247
1981	279	201	329	286	244	215	303	263	270	271	272
1982	308	219	365	317	268	232	330	286	297	300	289
1983	336	237	394	342	300	248	363	290	318	324	298
1984	366	256	445	376	321	273	396	282	342	358	311
1985 (e)	395	276	476	399	347	289	428	302	367	383	322
1986 (e)	423	291	505	421	368	305	456	314	389	406	335
CPMs											
1960	88	93	86	79	110	81	81	78	85	87	89
1961	91	99	89	83	110	83	82	78	87	90	90
1962	92	101	91	88	108	85	84	78	89	93	91
1963	93	100	92	90	108	85	87	91	92	93	92
1964	93	101	92	93	106	87	90	96	94	94	93
1965	94	100	94	94	103	94	94	100	96	96	95
1966	99	101	100	97	102	98	96	100	99	99	97
1967	100	100	100	100	100	100	100	100	100	100	100
1968	104	101	101	104	96	100	103	125	107	102	104
1969	109	105	109	106	96	101	106	132	112	107	110
1970	115	106	108	99	96	102	117	132	114	107	116
1971	118	112	96	95	88	97	119	143	115	104	121
1972	122	112	105	104	96	102	130	167	124	110	125
1973	126	109	114	109	95	106	136	174	129	114	133
1974	135	113	120	112	94	108	142	212	141	119	148
1975	154	120	126	119	98	114	151	219	153	127	161
1976	169	125	149	147	111	122	161	272	176	144	171
1977	183	133	177	152	133	131	174	268	186	159	182
1978	195	145	197	167	147	140	187	282	199	174	195
1979	213	158	219	183	161	149	202	244	206	190	217
1980	235	173	238	201	178	164	111	235	218	206	247
1981	263	188	261	223	202	182	242	263	244	230	272
1982	288	205	292	248	220	195	262	286	268	254	289
1983	314	221	318	268	244	207	286	290	287	275	298
1984	342	239	359	294	259	226	309	283	307	303	311
1985 (e)	366	258	388	312	279	240	331	302	329	325	322
1986 (e)	392	273	415	329	293	250	346	314	349	347	335

* Based on national and local budgets in all eight media

** Based on national budgets in seven media excluding direct mail

(e) Estimate

NOTE: The McCann-Erickson annual advertising expenditure reports are a main source for the indexes. Yearly change in expenditures is a function of change in price and change in the unit volume. Synthesis of such data is necessary because actual prices are often not publicly known.

Communications industry's financial score soars

John S. Suhler is president of Veronis, Suhler & Associates, a New York investment banking company specializing in communications industry mergers and acquisitions. David C. Lamb is an associate in the company and editor of VS&A's annual "Communications Industry Report," the third edition of which will be published next month. Information in this article is taken from that report.

By John S. Suhler and David C. Lamb

The communications industry found itself at center stage in 1985, as a wave of corporate mergers attracted both Wall Street and popular attention. The industry's attractiveness is obvious when viewing its financial performance for the past five years.

Veronis, Suhler & Associates defines the communications industry as those businesses involved in the creation or distribution of intellectual property. Based on VS&A's examination of 1984 data for 279 business lines of 256 companies, the communications industry is a $60 billion business, up from $50 billion in last year's analysis. This figure includes only the publicly held or publicly reporting companies engaged in communications.

Various subsectors of the communications industry commonly are recognized as the media, the information industry and the entertainment business. Another way of organizing the industry, is to examine the four predominantly advertiser-supported segments—broadcasting, newspaper publishing, business magazine publishing and consumer magazine publishing—in contrast to the five segments that do not depend primarily on advertiser support. The "advertiser-independent" segments are cable and pay tv, business information services, book publishing, entertainment programing and distribution, and recorded music.

The wild card in this scheme is the ad agency business itself. VS&A has analyzed it both as an advertiser-supported segment—a characterization no agency head would refute—and as an ad-independent segment.

The advertising-supported segments of the communications industry, including agencies, accounted for about half of the communications industry's revenue in 1984. They contributed closer to 60% of industry operating income.

Looked at from the standpoint of advertising dependent vs. independent sectors, the ad-supported sector in 1984 appears as the healthier piece of a vigorous industry.

The ad-supported sector's revenue (minus agencies) increased 16.2% in 1984 over 1983; this result compares favorably with the over-all communications industry's growth of 15.7%. Furthermore, pretax operating income for this group grew 22.3% in 1984. The gain outpaced communications industry growth, a very respectable 19.7%. Few $60 billion industries increase pretax income at this velocity.

The contrast between the ad-supported sector and the ad-independent sector is more pronounced than the contrast between the ad-supported sector and the communications industry. Last year, the ad-supported sector (again minus agencies) increased revenue 7% faster and pretax income 26% faster than the ad-independent sector.

The ad-supported portion also boasts higher operating and cash flow margins than either the

Buying

(Continued from Page 43)

GM's network specials and miniseries.

General Motors was the third largest network tv advertiser in 1984, spending $231 million.

Each agency also was given buying responsibilities for a group of magazines, and reportedly each magazine has been asked to propose discount structures for multiyear contracts. GM spent $96 million on magazines in 1984.

Although Ms. Patrick declines to discuss specifics about GM, she says a lack of equilibrium in the marketplace is forcing advertisers to re-evaluate some basic concepts about media.

"Cable tv, specialty magazines among other media have upset things. As more households get vcrs and are able to do their own programing, fundamental change and a lot of instability is developing in the marketplace," she says. "We need to understand what's going on. Is this a threat to the traditional advertising vehicles? A big part of the problem is that consumers themselves don't know."

One effect of this uncertainty is a willingness of advertisers to experiment with new media, paying closer attention to value—the reach and frequency of impression on the medium's natural audience. "Advertisers are placing fewer volume media buys, such as network tv. They're spreading the money around trying different approaches," Ms. Patrick says.

Philip Guarascio, executive director-advertising services for GM, says corporations are looking for ways to get a bigger voice in the marketplace through emerging media. By getting in on the ground floor, an advertiser can benefit later.

"Clients providing seed money tend to get substantial financial benefits later on. "You win biggest when you take some risks," Mr. Guarascio says.

The overriding factors at GM are efficiency and effectiveness of media buying for each division, Mr. Guarascio says. In this regard, consolidating spending gives an advertiser "more bang for the buck." He notes a trend toward "massification" of ad spending, either in-house or through a lead agency, to gain leverage in media buying.

"Generally, the more dollars you spend, the better position you have in the marketplace. Finding ways to bundle spending is the most important thing," he says.

The same is true of AT&T, which realigned network buying assignments effective last Jan. 1 to make lead agencies responsible for dayparts rather than for products and services. This eliminated instances where AT&T agencies would bid against each other for the same tv shows, artificially raising the demand and price of network time, says Bob Watson, AT&T corporate media director.

"We were bidding against each other. Each agency was doing its own thing in its own way, and it wasn't even coordinated so that we weren't running into each other," Mr. Watson says. The realignment "put some sanity back into the process."

Since the change, improvements in network tv buying may save AT&T 5% on network spending in 1985, Mr. Watson says. AT&T spent $253 million in measured network tv during 1984, but is expected to spend much less in 1985, he says. Spending in 1984 was higher because of "equal access" advertising and introductions of AT&T personal computers.

AT&T is attempting to strike a balance between centralized and decentralized media planning, Mr. Watson says. After divestiture of the seven regional holding companies Jan. 1, 1984, AT&T exercised its new marketing freedom with an uncoordinated, decentralized ad program that generated as many as 14 different theme lines, he says.

With the relaxation of certain federal regulations concerning its information systems and communications divisions, the company is moving back to a more centralized system of planning, he says.

"If we're to act as a unified corporation, we have to work together and promote one theme line: 'AT&T, the right choice,'" Mr. Watson says. "That is no easy task in a company this size. It's kind of like trying to control a runaway freight train."

Possibly a key factor in reevaluation of media buying strategy is the long-term shift in the cost efficiencies of specific media elements. The past decade, 1976-85, has witnessed a dramatic upward trend in both inflation and in media costs per thousand, "making it a very difficult 10-year period for advertisers," says Fred Brandt, vp-media information and analysis at Ted Bates Advertising/New York.

Some media have become relatively more expensive than others. Evening network tv prices have increased 13.4% on a compounded annual basis since 1976, nearly double the consumer price index compound annual growth rate of 7.4%. Magazines have increased 9.1% annually in the same period, and most other media have increased annually in the 9% to 10% range. Exceptions are spot tv and spot radio, which are bargains at 6.7% and 6.5% increases, respectively, he says.

These shifts in cpm mandate continuing advertiser re-evaluation of the media mix. "Not that advertisers are likely to shift media plans overnight, but they continually reassess and change the mix," Mr. Brandt says.

"A lot of media planning has developed because of slow changes in cpm. You reach turning points for various products. An advertiser may say, 'I'm willing to divert 5% to 7% of my money into spot tv versus network,'" Mr. Brandt says. At this point, the reach and frequency of the media become important considerations.

Bates favors development of a basic media plan and several alternatives, Mr. Brandt says. Alternative plans usually have several options for experimentation with various media.

"In good conscience as a professional media planner, you have to address these issues. Will a dollar spent in another media, get you more?" he asks.

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over-all industry or the independent sector. (Cash flow as used here is a pro forma measure calculated by adding back depreciation and amortization to pretax income.) The ad-supported sector's pretax operating income margin rose to 17.4% in 1984, while its cash flow margin increased to 20%.

The three print segments, consumer and business magazine publishing and newspaper publishing, lead (in that order) all others in the communications industry in terms of both 1984 operating income return on assets and 1984 cash flow return on assets. Consumer magazine publishing's cash flow return on assets, at 56.5%, is particularly impressive.

The segments represent data totals for 115 company business segments. VS&A reports a company's communications segment, such as consumer magazines, under the VS&A communications category of the same name when the company's revenue in that segment is 60% or more of total revenue for that segment.

Many companies group their communications segments within larger categories whose over-all revenue may dwarf those contributed by communications activities. In these cases, where revenue is known, VS&A places them in a "miscellaneous" category.

The segment-by-segment picture is generally one of accelerating revenue growth accompanied by margin expansion, both in pretax operating income margins and cash flow margins.

Radio and tv

As the magnitude and valuations involved in tv station ac-

(Continued on Page 46)

Radio & television broadcasting 1980-1984 segment operating data

($000,000)	1980	1981	1982	1983	1984
Revenues	$7,397.0	8,260.9	9,343.9	10,573.7	12,375.9
Pretax operating income	1,330.7	1,510.4	1,625.1	1,859.7	2,272.4
Assets	5,385.7	6,179.4	7,342.6	8,637.3	11,513.9
Pro-forma operating cash flow	1,483.4	1,687.2	1,841.8	2,113.2	2,576.4

Source: VS&A

Advertising 1980-1984 segment operating data

($000,000)	1980	1981	1982	1983	1984
Revenues	$1,680.4	1,856.6	2,169.4	2,499.2	2,885.7
Pretax operating income	184.7	172.6	196.0	247.6	294.9
Assets	1,977.9	2,215.2	2,665.4	3,088.5	3,525.8
Pro-forma operating cash flow	217.3	210.7	244.7	306.7	358.7

Source: VS&A

Newspaper publishing 1980-1984 segment operating data

($000,000)	1980	1981	1982	1983	1984
Revenues	$6,797.1	7,915.9	8,553.4	9,590.6	11,156.7
Pretax operating income	1,076.0	1,241.1	1,241.2	1,683.4	2,000.9
Assets	4,733.8	5,441.7	6,059.7	6,733.4	7,521.3
Pro-forma operating cash flow	1,262.5	1,464.6	1,512.0	1,996.3	2,359.8

Source: VS&A

Consumer magazine publishing 1980-1984 segment operating data

($000,000)	1980	1981	1982	1983	1984
Revenues	$1,635.6	1,813.3	1,892.0	2,129.4	2,392.7
Pretax operating income	125.8	170.0	181.9	182.8	274.8
Assets	409.4	437.0	417.5	483.1	577.3
Pro-forma operating cash flow	133.8	178.6	193.3	195.9	299.9

Source: VS&A

Business magazine publishing 1980-1984 segment operating data

($000,000)	1980	1981	1982	1983	1984
Revenues	$809.3	927.5	927.6	977.0	1,117.3
Pretax operating income	99.6	105.0	108.8	127.8	163.2
Assets	392.2	433.5	462.7	480.1	493.9
Pro-forma operating cash flow	107.3	115.1	120.1	141.1	179.7

Source: VS&A

Radio

(Continued from Page 42)

appeal at 35-year-olds and others start at 45.

Other that have found their niche include KFAC (am, fm), the lone classical outlet in the metro area. The spring Arbitron ratings book gave the combination station a 1.2, but according to Mr. Klein, "KFAC is an overachiever and never talks numbers. They're involved in another aspect of radio selling—who are these listeners, what kind of life styles do they lead?"

The format smorgasbord available to advertisers also includes black/urban stations, KJLH (fm), KACE (fm) and KDAY (am), and Hispanic radio where there is a struggle between leader, KTNQ (am) and KSKQ-FM, KLVE (fm) and KWKW (am). KZLA-FM and KLAC (am) have no other competition in their country format.

Ms. Kaplan says demographics and age still don't totally sell a station. "Most people would consider Rick Dees at KIIS the dominant personality in this market today, but you have to ask, 'what happens at KIIS when he's not on the air?' "

A media buyer should make a station selection based on the different types of personalities within that category—"personalities that can deliver. Others may say I'm way off base," she says, "but the market is so competitive that nobody or station—not even KIIS—owns it."

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Financial

(Continued from Page 45)

quisitions this past year have indicated, broadcast stations are dearly valued assets. The prices paid in some recent transactions —among them Taft Broadcasting's acquisition of Gulf Broadcast Co. and Rupert Murdoch's purchase of the Metromedia stations—attest to the attractive, stable cash flows associated with broadcasting.

Broadcasting's higher profitability relative to the other communications segments is demonstrated by looking at its revenue and income contribution to industry results. In 1984, broadcasting accounted for more than one-quarter of the industry's operating income, even though it accounts for only one-fifth of the industry's total revenues.

Broadcasting revenue increased 17% in 1984 over the prior year, the highest annual growth rate during the 1980-84 period. But the segment's operating income bettered that performance in 1984, advancing 22.2%, another period record. In cash flow terms, the accepted measure of profitability in broadcasting, growth has paralleled that of operating income.

More than in any other segments in the communications industry, margins for broadcasting have held static on a year-to-year basis since 1980.

Broadcasting's operating income margin has increased only 0.4 percentage points since 1980, while cash flow margins have increased 0.8 points.

Newspaper publishing

Like broadcasting, newspaper publishing has been a target of corporate purchasers attracted by the stability and high margins of the business. The Des Moines Register & Tribune Co. and the Evening News Assn. in Detroit both recently were acquired by Gannett Co. after unsolicited bids sparked interest.

Of the ad-supported segments, newspapers felt the impact of the last recession the hardest because of their direct dependence on retail advertising. Growth in newspaper operating profits stalled in 1982, but profits have continued to expand during the past two years.

On a 1984 revenue increase of 16.3%, the segment's operating income grew 18.9%. The percentage income growth was less than that for the prior year,

Radio & television broadcasting 1980-84 growth and performance measures

Segment rank in communications industry in ( )

Growth/performance measure	55 company segments in sector: Revenues	Pretax operating income	Assets	Pro-forma operating cash flow
1980-84 compound annual growth	13.7% (4)	14.3% (5)	20.9% (3)	14.8% (5)
1984 growth	17.4% (2)	22.2% (5)	33.3% (2)	21.9% (5)
1984 operating margins		18.4% (2)		20.8% (4)
1980-84 margin growth		.4% (6)		.8% (6)
1984 return on assets		22.6% (5)		25.6% (5)
1984 asset turnover			1.2% (7)	

Source: VS&A

Advertising 1980-84 growth and performance measures

Segment rank in communications industry in ( )

Growth/-performance measure	11 company segments in sector: Revenues	Pretax operating income	Assets	Pro-forma operating cash flow
1980-84 compound annual growth	14.5% (3)	12.4% (7)	15.5% (5)	13.3% (7)
1984 growth	15.5% (6)	19.1% (6)	14.2% (6)	17.0% (8)
1984 operating margins		10.2% (8)		12.4% (7)
1980-84 margin growth		– .8% (8)		– .5% (8)
1984 return on assets		8.9% (8)		10.8% (9)
1984 asset turnover			.9% (10)	

Source: VS&A

Ad-supported media outperform communications industry

VS&A Sector	Yearly totals 1980	1981	1982	1983	1984	Annual growth (%) 1981	1982	1983	1984	1980-84 compound annual growth
	($000,000)					(%)				(%)
Revenues										
Communications industry totals	$35,727.5	40,313.1	45,246.6	51,187.1	59,244.9	12.8	12.2	13.1	15.7	13.5
VS&A Ad supported sector totals	16,639.0	18,917.6	20,716.9	23,270.7	27,042.6	13.7	9.5	12.3	16.2	12.9
VS&A Ad supported sector, with advertising	18,319.4	20,774.2	22,886.3	25,769.9	29,928.3	13.4	10.2	12.6	16.1	13.1
VS&A Ad independent sector (w/o advertising)	15,205.8	16,716.7	18,751.6	21,288.0	24,532.4	9.9	12.2	13.5	15.2	12.7

	Pretax operating income 1980	1981	1982	1983	1984	Annual growth of operating income (%) 1981	1982	1983	1984	1980-84 compound annual growth	Pretax operating income margins (%) 1980	1981	1982	1983	1984	1980-84 Margin growth	1984 Pretax operating income return on assets (%)
Communications industry totals	4,911.4	5,453.8	6,088.7	7,380.6	8,835.0	11.0	11.6	21.2	19.7	15.8	13.7	13.5	13.5	14.4	14.9	1.2	17.3
VS&A Ad supported sector	2,632.1	3,026.5	3,157.0	3,853.7	4,711.3	15.0	4.3	22.1	22.3	15.7	15.8	16.0	15.2	16.6	17.4	1.6	25.9
VS&A Ad supported sector, with advertising	2,816.8	3,199.1	3,353.0	4,101.3	5,006.2	13.6	4.8	22.3	22.1	15.5	15.4	15.4	14.7	15.9	16.7	1.4	23.3
VS&A Ad independent sector (w/o advertising)	1,783.1	1,875.3	2,345.0	2,826.6	3,258.5	5.2	25.0	20.5	15.3	16.3	11.7	11.2	12.5	13.3	13.3	1.6	13.0

	Pro-forma operating cash flow 1980	1981	1982	1983	1984	Annual growth of pro-forma operating cash flow (%) 1981	1982	1983	1984	1980-84 compound annual growth	Pro-forma operating cash flow margins (%) 1980	1981	1982	1983	1984	1980-84 Margin growth	1984 operating cash flow return on assets (%)
Communications industry totals	5,736.5	6,499.9	7,557.0	9,184.9	11,045.9	13.3	16.3	21.5	20.3	17.8	16.1	16.1	16.7	17.9	18.6	2.6	21.6
VS&A Ad supported sector	2,987.0	3,445.5	3,667.2	4,446.5	5,415.8	15.4	6.4	21.3	21.8	16.0	18.0	18.2	17.7	19.1	20.0	2.1	29.7
VS&A Ad supported sector, with advertising	3,204.3	3,656.2	3,911.9	4,753.2	5,774.5	14.1	7.0	21.5	21.5	15.9	17.5	17.6	17.1	18.4	19.3	1.8	26.8
VS&A Ad independent sector (w/o advertising)	2,160.5	2,365.8	3,058.3	3,741.3	4,417.2	9.5	29.3	22.3	18.1	19.6	14.2	14.2	16.3	17.6	18.0	3.8	17.6

	Assets 1980	1981	1982	1983	1984	Annual growth of assets (%) 1981	1982	1983	1984	1980-84 compound annual growth	1984 asset turnover
Communications industry totals	28,112.7	34,561.6	40,419.8	46,539.7	55,759.2	22.9	17.0	15.1	19.8	18.7	1.2
VS&A Ad supported sector	10,921.1	12,491.6	14,282.5	16,333.9	20,106.4	14.4	14.3	14.4	23.1	16.5	1.5
VS&A Ad supported sector, with advertising	12,899.0	14,706.8	16,947.9	19,422.4	23,632.2	14.0	15.2	14.6	21.7	16.3	1.4
VS&A Ad independent sector (w/o advertising)	13,429.2	16,551.4	19,738.2	22,901.3	27,246.4	23.2	19.3	16.0	19.0	19.3	1.0

Source: Veronis, Suhler & Associates, New York

which had benefited from the lack of growth in 1982. Still, operating income growth in 1984 exceeded its 16.8% five-year compound annual growth rate.

In this compound annual growth measure, and in others for revenues and assets, newspaper publishing ranks in the middle of the communications industry.

For what is a greatly asset-dependent segment of the communications industry, newspaper publishing's return on asset performance is excellent. In 1984, newspapers posted a 28.1% pretax operating income return on assets and a 33.1% cash flow return. Only the two magazine publishing segments bettered this performance.

Business and consumer magazines

Magazine publishing is by far the most efficient user of assets in the communications industry. Put another way, it takes fewer assets to generate comparable revenue and income from magazine operations than from any other communications business.

Even among the two segments, however, there is a substantial difference in the weight of the asset base.

Consumer magazine asset turnover—the ratio of annual revenue to average assets—was 4.5 times in 1984.In contrast, business magazine publishing's 1984 asset turnover was 2.3 times. The asset turnover of both magazine publishing segments dramatically betters the communications industry asset turnover of 1.2 times a year.

Magazine publishing, albeit an efficient user of assets, ranks near the bottom of the communications industry in terms of revenue growth. Over the past five years, consumer magazine publishing has performed the better of the two segments, with 10% annually compounded growth, compared with business magazines' 8.4% growth.

The story is brighter on the operating income side. Consumer magazine publishing registered 21.6% compound annual growth, placing third in the communications industry. Business magazine publishing's 13.1% compound rate bettered revenue growth by more than one-third.

Brighter still, 1984 was the best year since 1980 for operating income growth for both segments. Bolstered by a strong gain at Time Inc., consumer magazine income leaped 50.3% —by far the highest segment gain in the communications industry. Business magazines also had a stellar year, boosting income 27.7% and continuing the pattern of acceleration that began the prior year.

Profile issues editor R. Craig Endicott coordinated this Media Outlook Special Report.

Coming

***Advertising Age Thursday* will not be published Nov. 28 issue because of the Thanksgiving holiday. The Special Report in the Dec. 5 issue of AA *Thursday* will focus on Cable Television.**

Ad agencies

Since 1980, the agency business has racked up strong gains in revenue that have not been wholly matched by gains in income. Over the five-year period, VS&A's ad segment posted a 14.5% compound annual growth in revenue, good enough to place the segment third in the communications industry behind two other rapid growth segments—cable and pay tv and business information services.

Over five years, operating income has increased at only a 12.4% annual clip, better than just three other industry segments. The segment grew 19.1% in income in 1984, however, on a revenue increase of 15.5%.

While most communications segments improved their operating margins in 1984 compared with 1980, advertising's margins languished. The segment's operating income margin dropped eight-tenths of a percentage point from 1980. Its cash flow margin declined half a point.

This margin shrinkage helped make advertising's 1984 operating income and cash flow margins among the shallowest in the business and crimped its return on assets performance.

In 1984 the agencies and agency groups VS&A studied posted operating income margins of 10.2%. Cash flow margins were two points higher, at 12.4%, and more in line with the communications industry median. Operating income return on assets of 8.9% bettered the results of only two segments. Cash flow return on assets of 9.8% was better. AA

Consumer magazine publishing 1980-84 growth and performance measures

Segment rank in communications industry in ( )

Growth/-performance measure	12 company segments in sector: Revenues	Pretax operating income	Assets	Pro-forma operating cash flow
1980-84 compound annual growth	10.0% (7)	21.6% (3)	9.0% (8)	22.4% (3)
1984 growth	12.4% (8)	50.3% (1)	19.5% (4)	53.1% (1)
1984 operating margins		11.5% (6)		12.5% (6)
1980-84 margin growth		3.8% (2)		4.4% (2)
1984 return on assets		51.8% (1)		56.6% (1)
1984 asset turnover			4.5% (1)	

Source: VS&A

Business magazine publishing 1980-84 growth and performance measures

Segment rank in communications industry in ( )

Growth/-performance measure	14 company segments in sector: Revenues	Pretax operating income	Assets	Pro-forma operating cash flow
1980-84 compound annual growth	8.4% (8)	13.1% (6)	5.9% (9)	13.8% (6)
1984 growth	14.4% (7)	27.7% (4)	2.9% (9)	27.4% (3)
1984 operating margins		14.6% (5)		17.4% (5)
1980-84 margin growth		2.3 (4)		2.8 (3)
1984 return on assets		33.5% (2)		36.9% (2)
1984 asset turnover			2.3 (2)	

Source: VS&A

Newspaper publishing 1980-84 growth and performance measures

Segment rank in communications industry in ( )

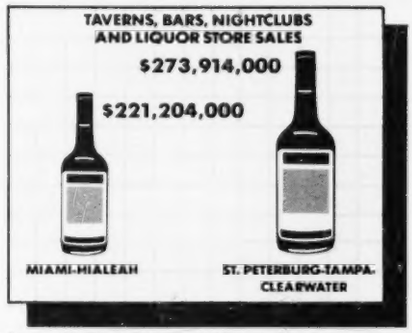
Growth/performance measure	23 company segments in sector: Revenues	Pretax operating income	Assets	Pro-forma operating cash flow
1980-84 compound annual growth	13.2% (5)	16.8% (4)	12.3% (3)	16.9% (4)
1984 growth	16.3% (4)	18.9% (7)	11.7% (8)	18.2% (6)
1984 operating margins		17.9% (3)		21.2% (3)
1980-84 margin growth		2.1% (5)		2.6% (5)
1984 return on assets		28.1% (3)		33.1% (3)
1984 asset turnover			1.6% (4)	

Source: VS&A

Amazing
Liquor Fact:

THE ST. PETERSBURG-TAMPA-CLEARWATER METRO AREA IS FIRST IN FLORIDA FOR TAVERNS, BARS, NIGHTCLUBS AND LIQUOR STORE SALES.

In the nation's third leading state for distilled spirits sales, the St. Petersburg-Tampa-Clearwater metro also leads Florida in drinking place sales, liquor licenses and distributor sales of distilled spirits. So if you want to give your spirits a lift, call your St. Petersburg Times/Evening Independent representative. You'll get some amazing results.



Source: 1984 Florida Department of Revenue Reports

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